



**CITY OF HAYWARD**  
**AGENDA REPORT**

AGENDA DATE 10/19/99  
AGENDA ITEM 3b  
WORK SESSION ITEM       

**TO:** Mayor and City Council

**FROM:** Director of Public Works

**SUBJECT:** Approval of Ground Lease and Construction Agreement with Home Depot Inc.,  
for Development of Airport Property on Hesperian Boulevard North of Sueirro

**RECOMMENDATION:**

It is recommended that the City Council approve the attached resolution authorizing the City Manager to execute the ground lease, construction agreement and all related documents with Home Depot Inc., for development of Airport property on Hesperian Boulevard north of Sueirro Street.

**BACKGROUND:**

On September 14, 1999, the City Council approved the Planned Development for the Home Depot project on Hesperian Blvd. north of Sueirro Street. The project involves the construction of a 107,920 square-foot home improvement retail center with an accessory 23,928 square-foot garden center. The project will be constructed on approximately 10.43 acres of Hayward Airport property.

The proposed lease with Home Depot will be for a 20-year period with seven 5-year options. Initial rent will be \$409,047 per year, based on the approximate 10.43-acre parcel size. This lease revenue represents a 9% return on a \$10 per square foot land value. The actual rental amount will be based on a survey of the site to determine the precise area. Rent will be adjusted at 5-year intervals based on CPI with a cap of 10%. At year 31, the rent will be adjusted to market, based on a certified appraisal of similar retail uses. In negotiating the primary financial terms of this lease, the City did retain outside real estate experts who confirmed that the City was receiving fair rental value for its property. Since this property is part of the Hayward Executive Airport, all rental income will accrue to the Airport Operations Fund and will be used solely for Airport purposes.


As part of the rental agreement, certain site improvements will have to be made in order to allow the Home Depot project to be built. Specifically, Sulpher Creek and the Airport Sewer Lift Station will have to be relocated from the proposed Home Depot parcel. Since these relocations are necessary to allow any development to occur on this site, these costs are

appropriately the responsibility of the owner. Again, since the Airport Fund is the beneficiary of the lease revenue, the costs for the relocations will be borne by the Airport. This relocation work is estimated to cost \$ 1,500,000. It is planned to finance these improvements through borrowing. The details of any borrowing have not been worked out as yet. However, by way of illustration, the annual debt service for a 20-year period is about 10% of the principal; in this case about \$150,000 per year. The annual rent will greatly exceed the annual debt service leaving nearly \$260,000 per year for Airport improvement purposes. Staff will also be evaluating shorter borrowing periods that will still allow annual positive cash flow to accrue to the Airport from this lease. Staff will be returning at a later date for Council approval of the details of this borrowing. A more complete summary of the lease terms is attached.

Because Home Depot will be doing site improvements for its development, staff recommends that Home Depot also do the creek and lift station relocation work. Staff believes that proceeding with the work in this fashion will be the most efficient and cost effective way to accomplish the work. Consequently, a construction agreement has been prepared that provides for Home Depot to do this work and be reimbursed by the City.

Staff recommends that Council authorize the City Manager to execute the lease agreement, construction agreement and all related documents necessary to provide for the completion of the Home Depot project in a final form, as approved by the City Attorney. Due to the length of these documents, they have not been included with this agenda report. Drafts of these documents are available for review in the office of the City Clerk.

Prepared and Recommended by:

  
Dennis L. Butler, Director of Public Works

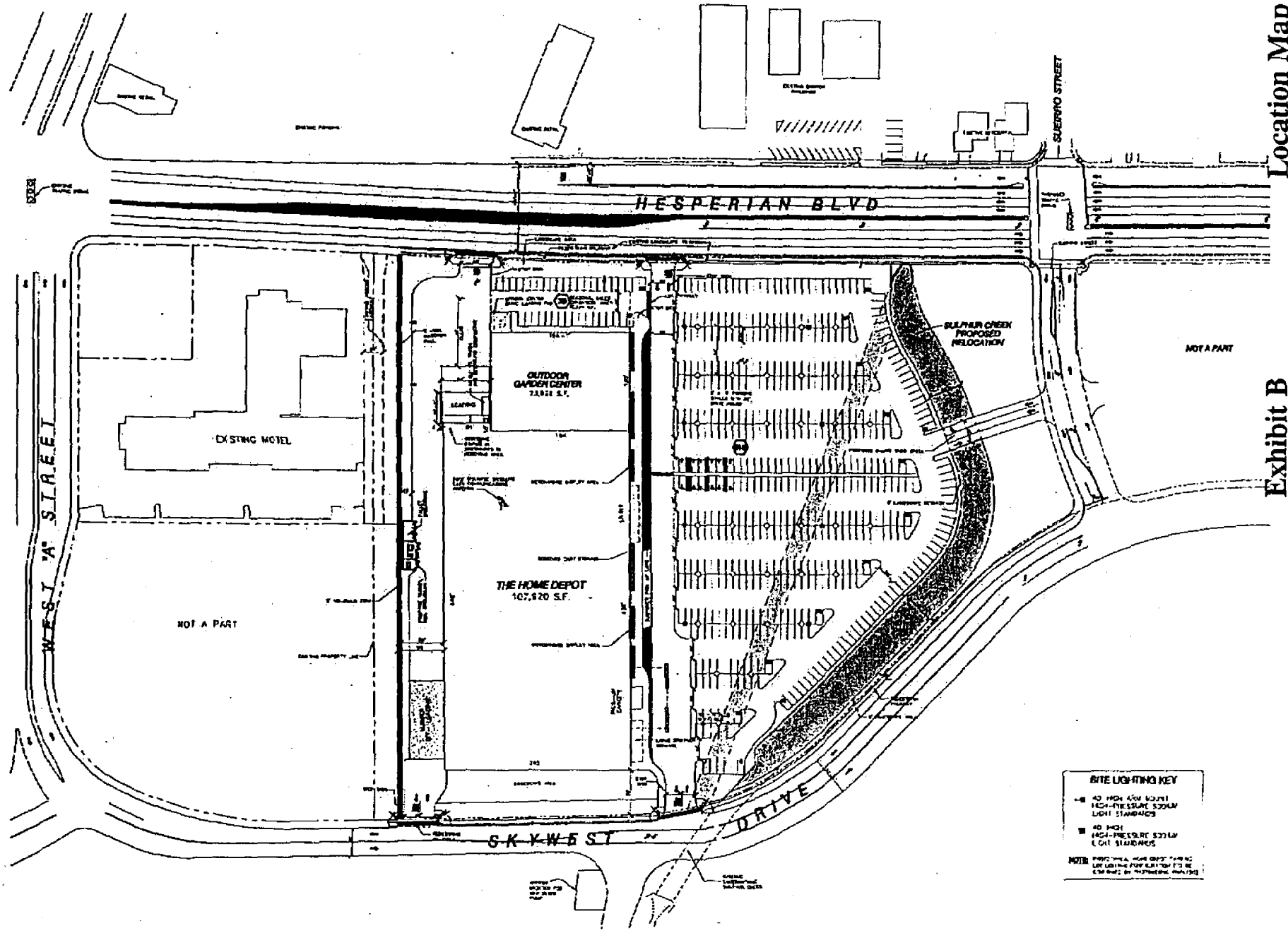
Approved by:

  
Jesús Armas, City Manager

Attachment: Exhibit A: Summary of Lease Terms  
Exhibit B: Location Map

## Home Depot Summary of Lease Terms

LESSEE:	Home Depot, Inc.
PROPOSED USE:	Home improvement store
AREA TO BE LEASED	454,331 sq. ft.
TERM:	20 Years/7 5-year options
INITIAL RENT YEARS 1-5:	\$409,047
INITIAL RENT/SQ FT:	\$0.90
RENT ADJUSTMENT:	CPI not to exceed 10% @ 5 year intervals. Adjust to market rent at year 31
CONDITIONS OF USE:	As approved in P.D.
TAXES/UTILITIES:	Paid by Home Depot
RENT COMMENCEMENT:	Earlier of 12 months after building permit or opening of store
LANDLORD'S WORK:	Sulphur Creek and sewer pump station relocation
CREDITS:	Home Depot to receive a credit for the cost of Hesperian Blvd. modifications, including traffic signal against the Supplemental Building and Construction Improvement Tax
EXCLUSIVE:	City agrees not to allow another home improvement store on Hesperian Blvd. Airport frontage
ASSIGNMENT OR SUBLEASE:	Tenant has limited right to assign or sublease with consent of City



**SITE LIGHTING KEY**

- 40' HIGH 40W MOUNTED HIGH-PRESSURE SODIUM LIGHT STANDARDS
- 40' HIGH 40W-PRESSURE SODIUM LIGHT STANDARDS

**NOTE:** PHOTO MOUNTED HIGH-PRESSURE SODIUM LIGHT STANDARDS FOR LIGHTING PURPOSES TO BE SUPPLIED BY CONTRACTOR.

Location Map  
Exhibit B

**DRAFT**  
HAYWARD CITY COUNCIL

*ADP.*  
9/30/99

RESOLUTION NO. \_\_\_\_\_

Introduced by Council Member \_\_\_\_\_

**RESOLUTION AUTHORIZING THE CITY MANAGER  
TO EXECUTE THE GROUND LEASE AND  
CONSTRUCTION AGREEMENT WITH HOME DEPOT  
INC. FOR THE DEVELOPMENT OF AIRPORT  
PROPERTY ON HESPERIAN BOULEVARD**

BE IT RESOLVED by the City Council of the City of Hayward that the City Manager is hereby authorized and directed to execute the ground lease agreement, construction agreement and all related documents on behalf of the City of Hayward with Home Depot, Inc. for development of Airport Property on Hesperian Boulevard north of Sueirro Street, in a form to be approved by the City Attorney.

IN COUNCIL, HAYWARD, CALIFORNIA \_\_\_\_\_, 1999

ADOPTED BY THE FOLLOWING VOTE:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST: \_\_\_\_\_  
City Clerk of the City of Hayward

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney of the City of Hayward